national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 12 – Inventories

Effective 1 April 2021

DEFINITION

Inventories are assets:
- ✓ Held for sale or distribution in ordinary course of operations
- ✓ In the process of production for sale or distribution
- ✓ In the form of materials or supplies to be consumed or distributed in the production process or in the rendering of services

INITIAL RECOGNITION

Inventories are recognised as assets, if and only if:
- ✓ It is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- ✓ The cost of the inventories can be measured reliably

INITIAL MEASUREMENT

- Inventories that qualify for recognition as assets are initially measured at cost
- Where inventories are acquired through a non-exchange transaction, their cost is measured at fair value as at the date of acquisition

Cost formulas:
For non-interchangeable items:
- Specific identification of individual costs

For interchangeable items, either:
- FIFO
- Weighted average

Use of the LIFO method is prohibited

May use standard cost method if results in approximate cost

The standard cost method takes into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions

MEASUREMENT AFTER RECOGNTION

Lower of

COST

Includes
- ✓ Cost of purchase, including taxes, transport and handling
- ✓ A deduction of trade or cash discounts and volume rebates
- ✓ Cost of conversion
- ✓ Other costs to bring inventories to its present condition and location

Excludes
- ✓ Anormal waste
- ✓ Storage costs
- ✓ Administrative overheads not related to production
- ✓ Forex differences
- ✓ Selling costs
- ✓ Interest costs (where settlement is deferred)

This is an implicit impairment test, thus inventories are excluded from the GRAPs on impairment

NET REALISABLE VALUE (NRV)

Does not apply to inventories to be distributed at no charge or for a nominal charge

Net realisable value is the estimated selling price in the **ordinary course** of operation, less the estimate costs to make the sale, exchange or distribution

CURRENT REPLACEMENT COST (CRC)

Applies to inventories to be distributed at no charge or for a nominal charge

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date

RECOGNITION OF EXPENSES

- The carrying amount of inventories is expensed when sold, exchanged or distributed during the period
- A write down to NRV or CRC and losses of inventories is expensed in the period incurred
- Write down reversal set-off against expense